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United States Tariff Commission

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Washington

1917

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UNITED STATES TARIFF COMMISSION

OUTLINE OF ITS WORK *and* PLANS

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DECEMBER, 1917

Printed for the use of the Commission

WASHINGTON
GOVERNMENT PRINTING OFFICE
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UNITED STATES TARIFF COMMISSION

OUTLINE OF ITS WORK *and* PLANS

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UNITED STATES TARIFF COMMISSION.

F. W. TAUSSIG, *Chairman.*

DAVID J. LEWIS,
WILLIAM KENT,
WILLIAM S. CULBERTSON,
EDWARD P. COSTIGAN.
} *Commissioners.*

W. M. STEUART, *Acting Secretary.*

THE UNITED STATES TARIFF COMMISSION.[1]

Let me begin with a few words concerning the precise nature of the Tariff Commission. It has no administrative or judicial functions like those of the Interstate Commerce Commission and the Federal Trade Commission. It is a body purely for gathering information and suggesting recommendations. But it is unlike most investigating commissions in that it is not temporary. It is created not for the purpose of investigating a particular situation and making a special report thereon; it is expected to continue its operations over a considerable period of time and to make not one report, but a series of them. The members of the Commission are appointed for terms of 12 years, and in the act establishing the Commission, Congress authorized a continuing appropriation. Permanent commissions usually have administrative functions; commissions whose functions are for investigation alone are usually temporary. The Tariff Commission is created primarily for investigation, and yet it is permanent. A body of this kind is unique. What can be achieved by it?

First, let it be pointed out what it can *not* be fairly expected to do. I am sure that I state truthfully the attitude of the Commission, and the attitude of Congress when it established the Commission, when I say that our task is not to take tariff questions out of the hands of Congress, or to remove them from the realm of statesmanship. We hope that we can aid in their settlement and can promote the ends of statesmanship. But the determination of public policy in this direction, as in every other, must rest in the first instance with the legislature and ultimately with the people. Nobody, however expert, can settle, still less dictate, the position which the country shall take on controverted political and industrial questions. All that any administrative or investigating body can do is to contribute toward discriminating and intelligent discussion and action.

[1] Originally prepared as an address by F. W. Taussig, chairman of the Commission, before the Home Market Club, Boston, Mass., May 18, 1917.

Our essential task, then, is to act as the servants and assistants of Congress. We are to gather and prepare information, to sift the essential from the nonessential. We shall bend our utmost endeavors to be exhaustive in inquiry, and at the same time brief and discriminating in statement. As regards advice, we must be sparing, since advice must often rest on the basis of established fundamental principles; and fundamental principles must be settled not by the Commission, but by Congress and by the public. We have no mission of a high-flying sort.

It will be admitted by all, I believe, that hitherto in the consideration of tariff problems trustworthy and accurate information has often been painfully lacking. The Committees of Congress have been fairly swamped by conflicting statements, on matters pertinent and not pertinent. They have heard unending testimony on both sides. They have found it beyond the limits of physical possibility to deliberate and discriminate, to separate the wheat from the chaff, to ascertain what were the unquestionable facts, still more to ascertain which facts were significant. Complete information on the contested questions has always proved difficult to obtain. Sometimes, it must frankly be confessed, information really complete may be impossible to obtain. No Tariff Commission can pretend to be a perfect and inexhaustible encyclopedia of information. And yet it may conceivably perform functions of a somewhat encyclopedic sort. Given time, organization, foresight, and the way can be made ready for prompt and intelligent action. The Commission has already begun the preparation of a catalogue of tariff information, and has put in charge of it a competent and trained statistician, already long experienced in the work of the Census Bureau. If time is given, and the work of the Commission proves as permanent as Congress has designed it to be, this catalogue will become a handy source of reference for pertinent information on the several phases of the tariff question. It is designed to have on hand, in compact and simple form, all available data on the growth, development, and location of industries affected by the tariff, on the extent of domestic production, on the extent of imports, on the conditions of competition between domestic and foreign products. To

gather information of this sort and to present it in usable form is far from an easy task. Like any far-reaching scheme of investigation, it can not be carried through suddenly or quickly. But given time, the Commission hopes to have, and to keep continuously up to date, a body of information that will be of important service in the determination of tariff policies. This much can be accomplished and surely is worth accomplishing.

Not a little has been said in discussion of the tariff situation in general and of the Tariff Commission in particular about the desirability of a scientific policy. That term should be used with caution. In the field of political and social inquiry we have not reached that stage of scientific certainty which has been reached in so many branches of natural science. Certainly it will not be contended that the principles of economics can be laid down in such terms and with such certainty as to enable us to formulate commercial policies which rest upon settled foundations. But the term "scientific" may be used in a different sense from that in which it implies established principles and indubitable truths. In that other sense, it means simply that we shall proceed with care and method; that we shall be accurate, painstaking, discriminating, shall refrain from guess, rumor, exaggeration, vague and untested general statements. We proceed in a scientific way if we gather all the information we can, sift it with care, present it clearly, apply it intelligently. In this sense the operations of the Tariff Commission may fairly be expected to have a scientific character and prepare the way for a scientific treatment of tariff problems.

To one further problem I would invite your attention in this connection. So long as the fundamental questions of principle are subject to disagreement, legislation must proceed more or less by compromise. Compromise appears, however, not only on matters of principle, but on many matters of detail. The adjustment of the details of tariff duties has sometimes taken place by compromise between the representatives of different constituencies, each representative necessarily reflecting the views and wishes of his own locality. This situation has frequently been ascribed to a lack of public spirit or integrity among members of

Congress. No such explanation is for a moment tenable. Everyone familiar with our Senators and Representatives knows that they are a body of high-minded and patriotic men. Though they differ, necessarily, in their views on contested questions of public policy, all are equally desirous of promoting the public good. But the position of a legislator as the mouthpiece and representative of his constituents leads to pressure for the promotion of their interests; and that pressure easily leads to a pooling of the interests of different constituencies. The fundamental principle upon which our Government was founded, that of checks and balances and of decentralized responsibility, militates against comprehensive and consistent plans of legislation. The establishment of the Tariff Commission indicates, it may be safely said, a desire on the part of Congress to promote consistency and comprehensiveness in this field and to avoid, as far as possible, the anomalies which result from the absence of any agency whose duty it is to survey the situation as a whole.

Quite different from these general problems, and yet of no small importance, are those involved in the administration of tariff laws. Here there is beyond question a large field for strictly noncontentious and needful inquiry. Some aspects of it are specifically mentioned in the act creating the Commission. The Commission is called upon, for instance, to investigate the administrative and fiscal aspects of the customs laws, the effects of ad valorem and specific duties, the arrangement and classification of articles in the customs schedules. The vexed question of the expediency of specific duties as compared with ad valorem duties is not necessarily connected with any disputed matters of public policy; neither is that of the simplification of the machinery for entering and appraising imported merchandise, and for collecting the duties. Everyone conversant with the framework of our tariff laws knows that much of it is cumbrous, ineffective, and obsolete. The Commission has already entered on this part of its task, and is confident of being able to point the way to simplification and improvement.

Let me describe, by way of concrete illustration, a problem of an administrative and noncontentious sort, which the Tariff Commission had occasion to consider almost immediately upon its establishment. A familiar phenomenon in our revenue legislation, with regard both to customs duties and internal taxes, has been the withdrawal of commodities from the taxable field during the period in which an increase of rates was under discussion. It is inevitable that when the first steps are taken toward an advance of taxes, commodities should be withdrawn at the then existing lower rates in order to prevent them from being subject to the proposed higher rates. There have been occasions when this has been done upon an enormous scale and with most serious consequences for the public revenues. Many of you will remember what happened in 1897, when the Dingley tariff bill was under discussion. During that long period of discussion, it was probable, indeed certain, that wool, which had been free under the preceding tariff act, that of 1894, would be subjected to duties in the then pending measure. Enormous quantities of wool were consequently rushed in from all parts of the world and were entered free of duty. When the act of 1897 was at last enacted there was a corresponding sudden drop in importations. It was several years before the wool market recovered from this anomalous situation and was able to adjust itself with some stability to the newly levied duties. The Government lost millions of dollars of revenue, while yet the ultimate purchasers of wool did not secure it upon a free wool basis. The same thing happened with regard to other articles during the period when the Dingley Act was under consideration. The total loss of revenue to the Government during the six months of that interim period was not far from $75,000,000.

The same difficulty appears with the internal revenue taxes. When proposals for increasing internal taxes are under consideration, the commodities to be reached, such as spirits and tobacco, are rapidly withdrawn from warehouses. The Government loses money; the consumers nevertheless pay prices based on the higher taxes eventually imposed. Sometimes the results of the situation are almost fantastic. A few years ago, when it was proposed to increase the tax on spirits, it was represented that the mere proposal, which as it happened came at a time of financial uneasiness, would serve to precipitate a crisis. Withdrawals from bond,

it was urged, would take place on so great a scale, and the persons making the withdrawals would borrow so heavily from the banks in order to make their tax payments to the Government, that a financial panic would ensue. The difficulty was doubtless exaggerated; but, to use an old phrase of Adam Smith's, it must have been very great to be susceptible of such exaggeration. The embarrassment is a serious and constantly recurring one.

Now for all this there is a remedy; nor is it far to seek. Other Governments have long dealt successfully with the difficulty. Great Britain has a settled practice by which, as soon as the Government proposes an added tax, it is collected at once, with the understanding that if the proposed legislation should fail to be enacted the anticipatory collection shall be refunded. In France and in Italy the law providing for the same procedure has the not inapt designation of "padlock law." The Government's revenue is protected by the provisional collection of proposed taxes, and trade unsettlement from a sudden withdrawal of commodities under the old rates is avoided.

The Tariff Commission accordingly submitted a report to Congress showing the embarrassments and difficulties which had arisen in the United States and proposing a remedy which seemed to the Commission feasible. Naturally, the details of procedure can not be the same in the United States as in other countries. Our legislative practice brings it about that in the course of the consideration of proposed tax laws by Congress, there is much greater probability of amendment and modification than is the case elsewhere. In foreign countries duties proposed by a cabinet or by a budget committee are likely to be enacted without change. In this country, however, a duty or tax must run the gauntlet of the House of Representatives and the Senate, and may emerge in very different form from that in which it is first proposed. But though the situation is less easy to deal with, it is not impossible to deal with. The Commission presented a draft of legislation which was flexible and was believed to be practicable. It is hardly necessary to say that in any such plan regard must be had to outstanding contracts and to the protection of merchants who have entered in good faith on commercial arrangements based on the previous tax situation. The case, at all

events, serves to illustrate the point to which I am now calling your attention. There is a large field of administrative and noncontentious legislation in which improvement can be effected by careful study. Incidentally I would mention that this is the only subject upon which the Commission has been asked to suggest recommendations to the Committee on Ways and Means, to which, of course, belongs the initiation of all revenue legislation. The Commission has been very recently instituted. Meanwhile, the exigencies of the war have come on the country suddenly and unexpectedly. They have made impossible that deliberate survey of the revenue aspects of the tariff which was assigned as one of the duties of the Commission. It could not be expected to contribute at once to the solution of the pressing revenue problems and very naturally was not consulted.

Let me call attention to still another direction in which preliminary investigation may aid in dealing satisfactorily with far-reaching and difficult questions of public policy—those connected with our foreign trade and our international relations. In the act creating the Commission it was provided that the Commission should have power to investigate our tariff relations with other countries, and the commercial treaties and economic alliances which must be considered in connection with our own tariff policy. These problems of commercial policy were important as well as perplexing six months ago. They have become even more important and perplexing with the entrance of the United States into the war. Industrial rivalries underlie in no small degree the fearful contest in which the world is now engaged. They must inevitably present themselves for adjustment when the end is reached and peace is at last concluded. Even had we been able to maintain a policy of neutrality and to refrain from entering the war, we should have been compelled at its close to reconsider our international policy with reference to the changed world relations that will eventually emerge. Now that we have thrown our lot with the allies and are ourselves in the thick of the fight, it is even more imperative that we should consider what part the nation shall play and what attitude it shall take in the realignment of commercial and industrial forces.

Now in this regard the country has made some experiments already, has encountered some failures, has learned, or at least should have learned, some lessons. During the last generation we have tried several forms of commercial treaty and reciprocity arrangements. The results, it must be admitted, have been by no means satisfactory. I will not weary you with anything like a detailed account of the various types of legislation which we have tried. One form of reciprocity, incorporated in the McKinley Act of 1890, led to a few short-lived treaties. Still another form, tried in the Dingley Act of 1897, was attended virtually with no consequence whatever. In the tariff act of 1909 still another kind of commercial or bargaining device was set up, again with results that can not be said to have been of significance, and certainly not of promise as regards the very different conditions which now confront us. Meanwhile other countries have gone their way with experiments and policies of their own. France has tried a policy of maximum and minimum tariffs. Germany has elaborated the essentially different plan of conventional or treaty tariffs, embodying a large and complex form of commercial bargaining. The British colonies have developed a system of preferential tariffs; and it would seem among the possibilities, indeed among the probabilities, that some general system of preference will prevail after the close of the war between Great Britain and her colonies. The lessons to be learned from all these experiments and trials are by no means clear. Some methods that have proved serviceable in foreign countries are not practicable in the United States. Others are in themselves not in accord with the principles and traditions of the United States. Still others may contain useful lessons for us. What is clear above all things is that the situation calls for prudence, foresight, systematic inquiry on the experience of the past and the possibilities of the future.

The Tariff Commission is endeavoring to grapple with this complicated problem. It has already begun a thorough investigation of the reciprocity treaties and the commercial policy of the United States and of European countries. Still more, it has undertaken to inquire independently what are the plans and expectations of the various countries in this connection with regard to the future. Two members of the

Commission have been designated, with the consent of the Department of State, to proceed to foreign countries, both those in the Orient and those of the Western world, with a view to ascertaining on the spot what is the state of opinion and what is the expected course of action. We are well aware that on many aspects of this problem nothing of a definite sort can yet be ascertained. Yet something can be learned concerning the possibilities and the prospects, and some preparation can be made for the establishment of a sound policy of our own. Toward this end the Commission hopes to contribute both by its investigations at home and by its inquiries abroad. The foreign mission, it need hardly be said, is not for the purpose of intruding on the plans or actions of other peoples, but for frank and friendly interchange of ideas, and the promotion of concord.

One general remark may be added concerning the spirit in which the United States should shape its own policy and should participate in the commercial negotiations that will come at the close of the war. We shall enter upon them, I trust, in the same spirit in which we have entered on the hostilities themselves. Our President has stated in eloquent terms the attitude which this country takes in the great world struggle. We desire no conquests for ourselves; we are averse to conquest by others. We wish to see no nation exterminated; we wish to see no people subjugated. We look for the largest freedom of development for all nations, for the largest measure of choice by each in determining its domestic policy and its relations with other nations. As we take this to be our guiding principle in matters political, so we should also take it in the field of industry and commerce. We enter the war in no spirit of exploitation for ourselves or for others; and we shall join at its close in no policy of exploitation. We shall not desire for ourselves discriminatory or unequal commercial privileges. We shall regret the grant of unequal privilege to other nations, not merely because such grants may be injurious to ourselves, but because they are inconsistent with that lasting peace which we hope to promote among the nations. If we adopt defensive commercial legislation of our own, it will be with the design of maintaining it strictly as defensive, not as a means of aggression or control.

The world will become a very different world after the war. We can not isolate ourselves. Foreign trade as well as foreign diplomacy must play a greater part than before. We must be prepared to meet the commercial, as well as the military and political dangers which are involved by our entry into world politics. But as we have stood for freedom, equality, and justice in our past policy of isolation, so let us stand for freedom, equality, and justice in our new policy of world participation. If we extend our foreign trade, we shall hope to do it by making that foreign trade advantageous to others as well as to ourselves. If we make commercial alliances, we shall wish to make them profitable not only to ourselves but to our commercial allies. It would be a vast misfortune, and indeed a negation of all we hope to accomplish by the war, if it left behind it no other commercial policy than one of selfish struggle and mutual recrimination. Our aim should be not to secure discriminations but to remove them. Our industrial and commercial ambition should turn not to securing artificial aid for our own trade, but to that efficiency of industry which promote the prosperity of all the world.

In conclusion, gentlemen, I wish to enlist your cooperation and the cooperation of the public, and at the same time wish to assure you of a spirit of cooperation on the part of the Commission itself. We shall welcome information and suggestions from all quarters, and we shall not fail to give attentive consideration to everything that reaches us. Many problems and difficulties will suggest themselves to business men in their own experiences which would be valuable to the Commission. Many views will present themselves which will escape notice unless freely brought to the attention of some coordinating body. We constitute a sort of clearing house for discussion and the gathering of information, and we welcome contributions from all quarters.

As regards the attitude of the Tariff Commission itself, let me give you the most complete assurances that it approaches its problems in an absolutely nonpartisan attitude and with a total absence of prejudice. It has no doctrine to preach and it has no panacea to prescribe. Its only guiding principle is that of a desire to promote the public well-being. Its prime object is patient investigation

and absolutely impartial attainment of the facts. Its members have no ax to grind. They ask the indulgence of the public for their inevitable shortcomings, but they can give the most unqualified assurance of single-minded service.

At the same time, while giving this assurance, they must ask the public to have consideration for the difficulties under which they labor. As they will with patience conduct their investigations, they must ask the public to await the results with patience. They do not flatter themselves that by the circumstance of having been appointed Tariff Commissioners they have thereby suddenly become abundant fountains of wisdom. They have much to learn and will need time for learning it. Investigations can be successful only if time be given for them. A competent staff must be organized, must be drilled, must be given time to work out the facts and prepare an intelligent exposition of them. We of the Commission can promise to do our best, but we can not undertake to solve all problems that call for solution, still less are we now in a position to solve them. We must ask your kind indulgence, your constant patience, your friendly aid.

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